Friends,

INTERNATIONAL VS US STOCK PERFORMANCE

So far this year, the MSCI EAFE index (+14% through June) has handily outperformed the S&P 500 (+9%). This has led many to question the likelihood of international stocks being able to continue to outperform the US. See page 42 of the JPMorgan Guide to the Markets 3rd Quarter 2017 (attached); overseas stocks (taken as a whole) still offer higher dividend yields, and lower valuations than the S&P 500, and as this page shows, overseas stocks still have a long way to increase in order to catch up to the US stocks. Furthermore, page 44 shows that manufacturing momentum is accelerating in most parts of the globe, with one notable exception: US manufacturing momentum seems to be slowing since the beginning of this year.

THE FED AND INTEREST RATES

Those following the recent news have probably heard much about the Fed announcing plans to reduce the size of their balance sheet, by not re-investing the proceeds of maturing bonds in their portfolio. This is significant, as many expect this lower level of demand going forward could create upward pressure on long-term interest rates. In addition, if long-term bond yields increase significantly, not only will it cost the federal government (and the taxpayer) more in interest costs to service the national debt, consumer borrowing costs for homes, cars, student loans and just about everything else will likely increase; this could slow the US consumer. Finally, if bond yields rise significantly, bonds as an asset class may become more attractive to retirees and other investors looking for income, which could pull significant money away from the stock market. It's no wonder the Fed would like this balance sheet reduction to be slow and steady. See page 33 of the Guide for a graphical representation of how large the Fed's balance sheet has grown compared to pre-Great Recession levels, as well as the forecasted reduction based on recent comments from the Fed.

US ECONOMY: A MIXED PICTURE

The US economy continues to perform well in the slow-and-steady sense; inflation and interest rates remain low, unemployment remains low, and household net worth continues to rise thanks to a rising stock market and rising housing prices. That being said, there are a couple of negative trends worth watching more closely. Both US housing starts and vehicle sales have been declining in recent months. Since consumer spending represents about 69% of the US economy, these are two metrics worth watching closely. See pages 18-21 of the Guide for a closer look as US economic activity and trends.

I hope this helps, and I hope you all have a great week!

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Stocks offer long-term growth potential, but may fluctuate more and provide less current income than other investments. An investment in the stock market should be made with an understanding of the risks associated with common stocks, including market fluctuations.

Investing in foreign securities presents certain risks not associated with domestic investments, such as currency fluctuation, political and economic instability, and different accounting standards. This may result in greater share price volatility.

Investments in fixed-income securities are subject to market, interest rate, credit and other risks. Bond prices fluctuate inversely to changes in interest rates. Therefore, a general rise in interest rates can result in the decline in the bond's price. Credit risk is the risk that an issuer will default on payments of interest and/or principal. This risk is heightened in lower rated bonds. If sold prior to maturity, fixed income securities are subject to market risk. All fixed income investments may be worth less than their original cost upon redemption or maturity

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